

Mason-Lake Intermediate School District

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

Mason-Lake Intermediate School District

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Mason-Lake Intermediate School District

Management's Discussion and Analysis

Mason-Lake Intermediate School District is located in Ludington, Michigan. The Intermediate School District provided services to six K-12 school districts and one public school academy located within portions of five different counties during fiscal year 2007. Effective June 30, 2007, Lakeshore Public Academy disorganized as a public school academy. The current year Management's Discussion and Analysis, a requirement of GASB 34, is Mason-Lake Intermediate School District Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Generally accepted accounting principles according to GASB 34 require the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Using this Annual Report:

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mason-Lake Intermediate School District as a whole. The *District-wide Financial Statements* provide information about the activities of the whole Intermediate School District, presenting both an aggregate view of Intermediate School District's finances and a longer-term view of those finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Intermediate School District's operations in more detail than the district-wide financial statements by providing information about the Intermediate School District's most significant funds – the General Education Fund, Special Education Fund, and the Career and Technical Education Fund, with all other funds presented in one column as other governmental funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Intermediate School District acts solely as an agent for the benefit of students.

Reporting the Intermediate School District as a Whole – District-wide Financial Statements:

The district-wide financial statements include the statement of net assets and the statement of activities. These statements, which appear first in the Intermediate School District's financial statements, report information on the Intermediate School District as a whole and its activities in a way to provide an easy-to-understand overview of the District's financial position and results of operations for the year. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mason-Lake Intermediate School District

Management's Discussion and Analysis

These two statements report the Mason-Lake Intermediate School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, Mason-Lake Intermediate School District exists to provide services to our local school districts, their staff, and the students they serve. We do not generate profits as commercial entities do. One must consider other nonfinancial factors, such as the quality of services provided, to assess the overall health of the Mason-Lake Intermediate School District.

The statement of net assets and statement of activities report the governmental activities of the Mason-Lake Intermediate School District, which encompass all of the District's services, including instruction, supporting services, and community services. Property taxes, state aid, and federal grants finance most of these activities.

Reporting the Intermediate School District's Most Significant Funds – Fund Financial Statements:

The Intermediate School District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and bond covenants. However, the District has established other funds to help it control and manage money for particular purposes. The governmental funds of the District use the following accounting approach:

Governmental funds: All of the Intermediate School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Intermediate School District's programs. We describe the relationship or differences between governmental activities reported in the fund financial statements and the district-wide financial statements in a reconciliation schedule.

Mason-Lake Intermediate School District

Management's Discussion and Analysis

The Intermediate School District as Trustee – Reporting the District's Fiduciary Responsibilities:

Mason-Lake Intermediate School District serves as a trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes and by those to whom the assets belong.

Financial Analysis of the District as a Whole:

Net assets: Note that the statement of net assets provides the perspective of the Intermediate School District as a whole. Table 1 provides a summary of the Intermediate School district's net assets as of June 30, 2006 and 2007.

TABLE 1	Governmental Activities (in millions)		Total Percentage Change
	2006	2007	2006-2007
Assets			
Current and other assets	\$ 8.44	\$ 9.16	8.5%
Capital assets – Net of accumulated depreciation	3.44	3.63	5.5%
Total assets	11.88	12.79	7.7%
Liabilities			
Current liabilities	1.04	1.04	0.0%
Long-term liabilities	1.58	1.54	-2.5%
Total liabilities	2.62	2.58	-1.5%
Net Assets			
Invested in property and equipment – Net of related debt	2.41	2.69	11.6%
Restricted	6.27	7.02	12.0%
Unrestricted	0.58	0.49	-15.5%
Total net assets	\$ 9.26	\$ 10.20	10.2%

Mason-Lake Intermediate School District

Management's Discussion and Analysis

During the fiscal year ended June 30, 2007, the Intermediate School District's net assets increased by \$948,914. This improvement in financial position is the product of several factors. Total revenue increased by \$801,632 due to larger than anticipated increases in property tax revenue, other local revenue, and state funding for special education. At the same time, total expenditures increased \$68,916 from the prior year level. Revenue generated in excess of expenditures was retained in the cash, receivable, and other current asset accounts as reflected above in Table 1. Capital assets increased due primarily to the purchase of school buses.

Changes in net assets: The aforementioned analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Intermediate School District's governmental activities is discussed below. The District's net assets increased from \$9.26 million at June 30, 2006 to \$10.2 million at June 30, 2007. Capital assets, net of related debt compares the original cost, less accumulated depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from future tax revenues. Similar to the prior year, a portion of net assets, \$7.02 million, is legally restricted for special education programs, career and technical education programs, debt payments and donor designated purposes. The remaining amount of net assets, \$0.49 million, was unrestricted. The operating results of all three major funds will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Intermediate School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2007.

The total cost of all programs and services increased slightly to \$11.29 million. In terms of dollars, none of the expense categories increased significantly. Prior year support services expense included a special transfer of \$.5 million to our local school districts to subsidize their cost of operating several programs. That transfer did not occur in the current fiscal year. That cost was offset in the current year by increases in salaries, wages, and other operating costs. Instruction costs declined from the prior year due primarily to savings in health insurance costs and savings in salary levels due to the retirement of senior teachers. Community service expenses increased due to the addition of a new program supported by a one-time local grant. However, the actual dollar increase is immaterial.

Total revenue from the District's governmental activities increased 7% to \$12.24 million. Program revenue increased \$362,627 due to increases in restricted state revenue and other one-time revenue sources. General revenue increased by 6.37% or \$455,036 primarily due to increases in property tax revenue.

Mason-Lake Intermediate School District

Management's Discussion and Analysis

Total revenue surpassed total expense thereby increasing net assets \$948,914 from the prior year.

TABLE 2

	Governmental Activities (in millions)		Total Percentage
	2006	2007	2006-2007
Revenue			
Program Revenue	\$	\$	
Charges for services	0.19	0.17	-10.5%
Grants and categoricals	4.10	4.46	8.8%
General Revenue			
Property taxes	6.33	6.74	6.5%
Unrestricted state aid	0.48	0.5	4.2%
Other	0.34	0.37	8.8%
Total revenue	11.44	12.24	7.0%
Function/Program Expenses			
Instruction	3.32	3.26	-1.8%
Support Services	7.58	7.67	1.2%
Community Services	0.14	0.20	42.9%
Interest on long-term debt	0.06	0.05	-16.7%
Unallocated depreciation	0.11	0.11	0.0%
Total expenses	11.21	11.29	0.7%
Excess before special item	0.23	0.95	313.0%
Special item: gain on disposal of assets	-0.01	0.00	-100.0%
Increase (Decrease) in Net Assets	\$ 0.22	0.95	331.8%

Mason-Lake Intermediate School District

Management's Discussion and Analysis

Governmental Activities

Table 3 presents the costs of four major district activities. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$11.29 million.
- A small portion of the cost, \$171,634, was financed by the users of the programs through user charges.
- The federal and state government subsidized program cost with grants and state aid revenue totaling \$4.46 million.
- Total program revenue increased 8.1%, or \$346,596, over the prior year.
- Most of the District's net costs of services (\$6.65 million), however, were financed by District taxpayers, and to a lesser extent, state taxpayers.
- Current year property tax revenue comprised 55% of total revenue in both the current and prior fiscal year.

As indicated above, the *net cost* shows the financial burden that was placed on the Mason-Lake Intermediate School District taxpayers and on State taxpayers. Since property taxes for operations and unrestricted state aid constitute the majority of District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the Intermediate School District and the local districts it serves and balance those needs with available tax revenues and unrestricted state aid revenue.

TABLE 3

Net Cost of Governmental Activities (in millions of dollars)

	Total Cost of Services				Net Cost of Services		
	2006	2007	Percentage Change 2006-2007		2006	2007	Percentage Change 2006-2007
Instruction	\$ 3.32	\$ 3.26	-1.8%	\$	-2.18	\$ -2.14	-1.8%
Support Services	7.58	7.67	1.2%		-4.55	-4.32	-5.1%
Community Services	0.14	0.20	42.9%		-0.03	-0.04	33.3%
Other	0.17	0.16	-5.9%		-0.17	-0.15	-11.8%
Total	\$ 11.21	\$ 11.29	0.7%	\$	-6.93	\$ -6.65	-4.0%

Mason-Lake Intermediate School District

Management's Discussion and Analysis

The Intermediate School District's Funds

As we noted earlier, the Intermediate School District uses funds to help it control and manage money for specific purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Intermediate School District's overall financial health.

As the Intermediate School District completed this year, the governmental funds reported a combined fund balance of \$8.2 million, which is an increase of \$704,046 from the prior year. All of the Intermediate School District's governmental funds had increases in fund equity.

- Our General Education Fund reflects a decrease in fund balance of \$52,042 from the prior year. Revenues increased \$164,777 while expenditures increased \$248,124 from the prior year.
- The Special Education Fund reflects a fund balance increase of \$528,402. Revenues increased \$580,410 due property tax and state aid revenue increases. Special Education expenditures increased by \$109,408.
- The Career and Technical Education Fund experienced a fund balance increase of \$203,133. Compared to prior year levels, revenues increased \$33,903 while expenditures decreased \$125,932.
- The Debt Service Funds normally have low fund balances since the majority of funds used to pay debt principal and interest comes from the Special Education Fund in the form of operating transfers. These transfers are composed of state aid revenue and general operating revenues.
- The fund balance of the Capital Projects Fund increased \$24,493 at June 30, 2007 due to investment earnings.

Mason-Lake Intermediate School District

Management's Discussion and Analysis

Governmental Fund Budgetary Highlights

Over the course of the fiscal year, the Intermediate School District revises its budget as changes in revenues and expenditures become known. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Because the State of Michigan's fiscal year differs from the District's fiscal year, the District's original budgets are adopted approximately 120 days before actual state revenues are known. Material changes to original budgets for the General Education, Special Education, and Career and Technical Education fund budgets are as follows:

- **General Education Fund:** Final budgeted revenue increased \$281,753 over the original budget estimate. The original budget is compiled in April of the preceding year. This is well before most revenue funding levels are known. For example, property tax valuations are not known until May, one month after the budget is prepared. State aid revenue typically is not known until four months later - in September. Federal grant availability is typically not known until September as well. Because of the uncertainty that exists in April, the next year's anticipated revenue is conservatively estimated. Actual Revenue exceeded the original budget amount by \$275,801 due to larger than anticipated increases in tax revenue, state aid, federal grants, and other local grants. Budgeted expenses increased \$211,217. Of this amount, final instructional staff expense exceeded the original adopted budget by \$161,204. Most of that increase was due to higher federal and state funded program expense that was tied to the higher funding levels.
- **Special Education Fund:** Budgeted revenues increased \$639,271 due to greater than expected property tax revenue and an increase in state aid due to prior year taxable value adjustments. Budgeted expenditures increased \$127,685. The most significant budget change occurred in the transportation department. Actual expenditures exceeded the original budget by \$328,317 due to the purchases of four new school buses. The original budget anticipated leasing the buses over four years rather than the outright purchase that occurred in the current year.
- **Career and Technical Education Fund:** Budgeted revenues decreased slightly due to higher than expected property tax revenue. Actual instructional expenditures were \$120,360 less than the original adopted budget. Most of this decrease was due to staff changes that were planned but did not occur.
- There were no material negative expenditure variances between the final budget and actual amounts.

Mason-Lake Intermediate School District

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007 the Intermediate School District had \$6.3 million invested in capital assets. This amount represents a net increase, including additions and deletions, of \$374,202 or 6.3%, from last year. Total depreciation expense for the year was \$237,991 compared to \$282,308 in the prior year.

This year's asset additions of \$431,459 included school buses, technology, and other equipment purchases. Current year asset additions by fund are as follows:

General Education	\$	0
Special Education		367,433
Career and Technical Education		15,615
Unallocated		48,411
Total	\$	<u>431,459</u>

	Governmental Activities		Total Percentage Change
	2006	2007	2006-2007
Land	\$ 33,000	\$ 33,000	0.0%
Land improvements	412,479	412,479	0.0%
Buildings	3,426,257	3,437,493	0.3%
Buses and other vehicles	168,644	536,077	217.9%
Furniture and equipment	<u>1,868,950</u>	<u>1,864,483</u>	<u>-0.2%</u>
Total capital assets	5,909,330	6,283,532	6.3%
Less accumulated depreciation	<u>2,471,110</u>	<u>2,654,593</u>	<u>7.4%</u>
Net capital assets	<u>\$ 3,438,220</u>	<u>\$ 3,628,939</u>	<u>5.5%</u>

Mason-Lake Intermediate School District

Management's Discussion and Analysis

Debt

At June 30, 2007, Mason-Lake Intermediate School District had \$.94 million in bonds outstanding versus \$1.025 million in the previous year – a change of 8.3%. Debt related to the 1994 building & site bonds was extinguished during the prior year. The remaining bonds are related to the 2000 building & site project.

	<u>2006</u>	<u>2007</u>
General Obligation Bonds	\$ <u>1,025,000</u>	\$ <u>940,000</u>

The State limits the amount of general obligation debt that intermediate school districts can issue without a vote of the electors. The debt limit is limited to 1/9 of 1% of the state equalized valuation of the taxable property within the District. If the District issues “qualified debt”, i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The District’s outstanding unqualified general obligation debt of \$.94 million is significantly below the statutorily imposed limit.

Other obligations include employee compensated absences, vehicle notes, and obligations under a discontinued voluntary severance plan.

Economic Factors and Next year's Budgets

The Michigan economy continues to lag behind the rest of the nation. Because education funding in Michigan is largely based on business taxes, such as sales tax, our slumping state economy has had a direct and continuing negative impact on education funding. At the same time, operating costs for Michigan school districts are rising faster than revenue increases. Our legislature is being challenged to secure education funding in an environment when financial resources are declining. State and federal education funding levels for the subsequent fiscal year are typically not known until we reach our third or fourth month of operation. Our districts continue to be challenged to maintain instructional services during this time of economic uncertainty. To a large extent, their needs determine the nature and focus of our service efforts.

To assist our districts in meeting these challenges, Mason-Lake ISD and the local districts we serve are actively seeking cost-saving collaboration opportunities between districts. We are currently working to establish a business service cooperative for the benefit of our local districts. We are also exploring collaborative opportunities in other support service areas with the same goal of achieving savings that can then be redirected into instructional programs. In addition, we just completed the second year of a two-year agreement to share a superintendent with neighboring Oceana ISD. We are also sharing staff and other instructional services with Oceana ISD in an effort to reduce costs of both districts and the districts they serve while enhancing instructional services for children.

Mason-Lake Intermediate School District

Management's Discussion and Analysis

Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the Mason-Lake Intermediate School District's finances for all those with an interest in the District's finances. If you have questions about this report or need additional information, contact the Central Business Office, 2130 W. US-10, Ludington, Michigan 49431.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 10, 2007

Board of Education
Mason-Lake Intermediate School District
Ludington, Michigan

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason-Lake Intermediate School District (the School District), as of and for the year ended June 30, 2007, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mason-Lake Intermediate School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mason-Lake Intermediate School District, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 10, 2007 on our consideration of Mason-Lake Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education

October 10, 2007

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The management's discussion and analysis and the budgetary comparison information on pages i - xi and pages 25 - 27, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Mason-Lake Intermediate School District's basic financial statements. The combining nonmajor fund financial statements on pages 29 - 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Mason-Lake Intermediate School District
STATEMENT OF NET ASSETS
June 30, 2007

	ASSETS	Governmental activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 4,472,267
Investments		3,059,586
Receivables		50,261
Due from other governmental agencies		735,494
Inventories		2,450
Prepaid items		841,104
Total current assets		<u>9,161,162</u>
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		33,000
Depreciable		3,595,939
Total noncurrent assets		<u>3,628,939</u>
Total assets		12,790,101
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		659,957
Due to other governmental units		86,687
Deferred revenue		184,992
Bonds and other obligations, due within one year		104,301
Total current liabilities		<u>1,035,937</u>
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		<u>1,542,946</u>
Total liabilities		2,578,883
NET ASSETS		
Invested in capital assets, net of related debt		2,688,039
Restricted for:		
Special education		4,239,145
Vocational education		2,294,534
Permanent fund		8,044
Capital projects		483,321
Debt service		1,422
Unrestricted		496,713
Total net assets		<u>\$ 10,211,218</u>

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

				Net (Expense) Revenue and Changes in Net Assets
			Program Revenue	
			Charges	
	Expenses	for services	Operating grants and contributions	Primary Governmental activities
<i>Functions/Programs</i>				
Governmental activities				
Instruction	\$ 3,260,421	\$ 106,074	\$ 1,019,972	\$ (2,134,375)
Support services	7,667,095	65,560	3,280,906	(4,320,629)
Community services	200,830	-	160,612	(40,218)
Interest on long-term debt	53,977	-	-	(53,977)
Unallocated depreciation	103,239	-	-	(103,239)
Total governmental activities	<u>\$ 11,285,562</u>	<u>\$ 171,634</u>	<u>\$ 4,461,490</u>	(6,652,438)
General revenues				
Property taxes levied for				
General purposes				521,007
Special education				4,483,031
Vocational education				1,738,901
Grants and contributions not restricted to specific programs				495,118
Unrestricted investment earnings				347,803
Miscellaneous				11,382
Gain on sale of capital assets				4,110
Total general revenues and special items				<u>7,601,352</u>
Change in net assets				948,914
Net assets at July 1, 2006				<u>9,262,304</u>
Net assets at June 30, 2007				<u>\$ 10,211,218</u>

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	Special Education	Career and Technical Education	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 1,246,648	\$ 2,170,583	\$ 1,045,570	\$ 9,466	\$ 4,472,267
Investments	-	1,894,025	684,840	480,721	3,059,586
Receivables	5,803	23,059	18,799	2,600	50,261
Due from other governmental units	38,516	662,249	34,729	-	735,494
Due from other funds	111,320	75,482	-	-	186,802
Inventories	-	-	2,450	-	2,450
Prepaid items	44,044	97,572	699,488	-	841,104
Total assets	<u>\$ 1,446,331</u>	<u>\$ 4,922,970</u>	<u>\$ 2,485,876</u>	<u>\$ 492,787</u>	<u>\$ 9,347,964</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	\$ 12,952	\$ 556,205	\$ 82,688	\$ -	\$ 651,845
Due to other governmental units	1,951	37,532	47,204	-	86,687
Due to other funds	47,361	77,991	61,450	-	186,802
Deferred revenue	<u>172,895</u>	<u>12,097</u>	<u>-</u>	<u>-</u>	<u>184,992</u>
Total liabilities	235,159	683,825	191,342	-	1,110,326
Fund balances					
Reserved for:					
Inventories and prepaid items	44,044	97,572	701,938	-	843,554
Compensated absences	158,901	427,515	105,629	-	692,045
Severance plan	5,000	4,301	5,000	-	14,301
Capital projects	-	-	-	483,321	483,321
Permanent fund	-	-	-	8,044	8,044
Debt service	-	-	-	1,422	1,422
Special Education	-	3,709,757	-	-	3,709,757
Career and Technical Education	-	-	1,481,967	-	1,481,967
Unreserved					
Undesignated	<u>1,003,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,003,227</u>
Total fund balances	<u>1,211,172</u>	<u>4,239,145</u>	<u>2,294,534</u>	<u>492,787</u>	<u>8,237,638</u>
Total liabilities and fund balances	<u>\$ 1,446,331</u>	<u>\$ 4,922,970</u>	<u>\$ 2,485,876</u>	<u>\$ 492,787</u>	<u>\$ 9,347,964</u>

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
June 30, 2007

Total fund balance—governmental funds	\$	8,237,638
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.

Cost of capital assets	\$ 6,283,532	
Accumulated depreciation	<u>(2,654,593)</u>	3,628,939

Accrued interest in the governmental activities is not reported in the governmental funds.		(8,112)
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Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

Bonds and notes payable	(940,900)	
Voluntary severances	(14,301)	
Compensated absences	<u>(692,046)</u>	<u>(1,647,247)</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>10,211,218</u></u>
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The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES**
 Governmental Funds

	General Fund	Special Education	Career and Technical Education	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 521,007	\$ 4,483,031	\$ 1,738,901	\$ -	\$ 6,742,939
Medicaid reimbursement	-	246,433	-	-	246,433
Investment earnings	61,521	191,746	69,983	24,553	347,803
Other	35,031	27,182	9,685	-	71,898
Total local sources	617,559	4,948,392	1,818,569	24,553	7,409,073
State sources	706,627	2,002,846	140,481	47,282	2,897,236
Federal sources	37,004	1,562,624	122,725	-	1,722,353
Total revenues	1,361,190	8,513,862	2,081,775	71,835	12,028,662
EXPENDITURES					
Instruction	-	1,930,194	1,217,013	-	3,147,207
Support services	1,362,561	5,520,637	767,499	-	7,650,697
Community services	74,657	129,527	-	-	204,184
Debt service					
Principal	5,400	-	-	85,000	90,400
Interest and other charges	-	-	-	54,711	54,711
Total expenditures	1,442,618	7,580,358	1,984,512	139,711	11,147,199
Excess (deficiency) of revenues over (under) expenditures	(81,428)	933,504	97,263	(67,876)	881,463
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units and other transactions	69,700	29,162	106,954	-	205,816
Transfers to other governmental units and other transactions	(40,314)	(341,835)	(1,084)	-	(383,233)
Transfers in	-	-	-	92,429	92,429
Transfers out	-	(92,429)	-	-	(92,429)
Total other financing sources (uses)	29,386	(405,102)	105,870	92,429	(177,417)
Net change in fund balances	(52,042)	528,402	203,133	24,553	704,046
Fund balances at July 1, 2006	1,263,214	3,710,743	2,091,401	468,234	7,533,592
Fund balances at June 30, 2007	\$ 1,211,172	\$ 4,239,145	\$ 2,294,534	\$ 492,787	\$ 8,237,638

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

Net change in fund balances—total governmental funds	\$	704,046
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these cost are depreciated over their estimated useful lives.

Depreciation expense	\$	(237,991)
Capital outlay		431,459
		193,468

Governmental funds report the proceeds from sale of capital assets as revenue, but the Statement of Activities reports only the gain on the sale of capital assets.

(2,749)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

139,479

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.

734

Voluntary severance plan obligations and compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds

(86,064)

Change in net assets of governmental activities

\$ 948,914

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary funds
June 30, 2007

	Agency funds
ASSETS	
Cash	\$ <u>13,283</u>
 LIABILITIES	
Deposits held for others	\$ <u>13,283</u>

The accompanying notes are an integral part of this statement.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mason-Lake Intermediate School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is located in Ludington, Michigan. The School District began operations in 1962 and provides services to the following school districts: Free Soil Community Schools, Mason County Eastern, Mason County Central, Baldwin Community Schools, Pentwater Public Schools, Lakeshore Public Academy, and Ludington Area School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted state aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Special Education Fund* is used to account for funds legally restricted to special education programs.
- The *Vocational Education Fund* is used to account for funds legally restricted to vocational education programs.

The other nonmajor governmental funds are reported within the following types:

- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the acquisition of fixed assets or construction of major capital projects.
- The *permanent funds* are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the revised School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the Special Education Fund and the Vocational Education Fund is generally allocated to each fund using a weighted average of balances for the principal.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit and Investments—Continued

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	.28
Special Education Fund—Non-homestead	2.3817
Vocational Education Fund—Non-homestead	.9341

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000, except for technology of \$1,000 or more, and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	50 years
Buses and other vehicles	8 years
Furniture and other equipment	15 to 20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Voluntary Severance Plan

For district-wide financial statements, the liability for voluntary severance is reported when legally enforceable. For fund financial statements, the liability for voluntary severance is reported only when there is a specified due date.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual budgets lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Local School District boards approve or disapprove the annual General Fund budget by board resolution.
3. Public hearings are conducted to obtain taxpayer comments.
4. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
5. The administration of the School District is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year.
7. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

The School District did not have significant expenditure budget variances.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's Rating	Percent
MILAF external investment pool - MIMAX	\$ 701,833	1	AAAm	22.9%
MILAF external investment pool – TERM C	1,424,679	40	AAAm	46.6
Federal Agency Notes	<u>933,074</u>	<u>1</u>	AAA	<u>30.5</u>
Total fair value	<u>\$ 3,059,586</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>42</u>		

The School District voluntarily invests certain excess funds in external pooled investment funds which includes money market funds. One of the pooled investment funds utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the School District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$4,411,143 of the School District's bank balance of \$4,611,143 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name. Included in the above deposit figures are bank money market deposits of \$691,712.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Capital assets, being depreciated:				
Buildings and improvements	3,838,736	11,236	-	3,849,972
Furniture and equipment	1,868,950	52,790	57,257	1,864,483
Vehicles	168,644	367,433	-	536,077
Total capital assets, being depreciated	5,876,330	431,459	57,257	6,250,532
Less accumulated depreciation:				
Buildings and improvements	1,210,059	80,105	-	1,290,164
Furniture and equipment	1,151,216	140,280	54,508	1,236,988
Vehicles	109,835	17,606	-	127,441
Total accumulated depreciation	2,471,110	237,991	54,508	2,654,593
Total capital assets, being depreciated, net	3,405,220	193,468	2,749	3,595,939
Capital assets, net	\$ 3,438,220	\$ 193,468	\$ 2,749	\$ 3,628,939

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 82,201
Support Services	52,551
Unallocated depreciation	103,239
	\$ 237,991

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Obligations

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Special Education Fund	\$ 77,991
General Fund	Vocational Education Fund	33,329
Special Education Fund	General Fund	47,361
Special Education Fund	Vocational Education Fund	28,121
		<u>\$ 186,802</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The Special Education Fund transferred \$92,429 to the debt service funds to finance payments of bond principal and interest.

NOTE F—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include capital leases, notes payable, compensated absences, and termination benefits.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due within</u> <u>one year</u>
Governmental activities:					
Bonds	\$ 1,025,000	\$ -	\$ 85,000	\$ 940,000	\$ 90,000
Other obligations	675,662	86,064	54,479	707,247	14,301
	<u>\$ 1,700,662</u>	<u>\$ 86,064</u>	<u>\$ 139,479</u>	<u>\$ 1,647,247</u>	<u>\$ 104,301</u>

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE F—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

2000 Building and Site Bonds require bi-annual interest payments at rates ranging from 5.25% to 5.375% and annual principal payments ranging from \$85,000 to \$145,000 through May 2015	\$ 940,000
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Other obligations

Equipment note payable that requires monthly payments of \$450 with no interest; final payment due August 2007	900
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Severance plan	14,301
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Vested sick and vacation pay	<u>692,046</u>
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Total other obligations	<u>707,247</u>
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	<u><u>\$ 1,647,247</u></u>
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The annual requirements of principal and interest to amortize bonded debt outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 90,000	\$ 49,974	\$ 139,974
2009	100,000	45,248	145,248
2010	110,000	39,999	149,999
2011	115,000	34,224	149,224
2012	120,000	28,128	148,128
2013-2015	<u>405,000</u>	<u>44,612</u>	<u>449,612</u>
	<u><u>\$ 940,000</u></u>	<u><u>\$ 242,185</u></u>	<u><u>\$ 1,182,185</u></u>

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2007

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007, was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$872,400, \$797,800 and \$703,700, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—COMMITMENTS AND CONTINGENCIES

Commitments

Operating Leases – The School District is involved in several lease agreements expiring at various dates through May 2011 requiring aggregate minimum monthly payments of approximately \$1,100. Expense for the year ended June 30, 2007 was approximately \$146,900.

The following is a schedule of future minimum rental payments required under operating leases for School District office equipment and transportation equipment.

Year ending June 30,	Amount
2008	\$ 13,165
2009	8,759
2010	5,470
2011	5,014
	<u>\$ 32,408</u>

The School District entered into an agreement with West Shore Community College on July 1, 2005 to lease instructional space in a building constructed during fiscal year 2006. The remaining balance of the fifteen year lease totaling \$816,580 was paid during fiscal year 2007 and will be amortized over the lease term.

Contingencies

Grant Programs – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE I—OTHER INFORMATION

Economic Dependence – State school aid represents approximately 52.0, 23.4 and 6.4 percent of General, Special Education and Career and Technical Education Fund revenues, respectively.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

Mason-Lake Intermediate School District
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE J—SUBSEQUENT EVENTS

In July 2007, the School District also entered into an agreement to purchase business services for \$45,000 from a local School District.

On August 15, 2007, the School District entered into a 36-month operating lease agreement for the use of four buses with semi-annual payments of approximately \$39,000.

The School District began a roof membrane replacement project in August 2007 on its center building. The \$114,576 project was substantially complete on September 26, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

Mason-Lake Intermediate School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 548,000	\$ 624,900	\$ 617,559	\$ (7,341)
State sources	547,089	697,958	706,627	8,669
Federal sources	-	37,539	37,004	(535)
Incoming transfers and other transactions	60,000	76,445	69,700	(6,745)
Total revenues	1,155,089	1,436,842	1,430,890	(5,952)
EXPENDITURES				
Instruction				
Basic programs	-	54	-	54
Support services				
Pupil	20,000	20,419	19,709	710
Instructional staff	629,784	807,607	790,988	16,619
General administration	188,300	174,200	161,208	12,992
Business	208,200	222,414	217,647	4,767
Operations and maintenance	21,450	21,600	20,799	801
Central	153,781	161,107	152,210	8,897
Community services	-	79,409	74,657	4,752
Outgoing transfers and other transactions	50,200	50,500	45,714	4,786
Total expenditures	1,271,715	1,537,310	1,482,932	54,378
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(116,626)</u>	\$ <u>(100,468)</u>	(52,042)	\$ <u>48,426</u>
Fund balances at July 1, 2006			<u>1,263,214</u>	
Fund balances at June 30, 2007			\$ <u>1,211,172</u>	

Mason-Lake Intermediate School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Special Education Fund

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 4,590,029	\$ 4,954,200	\$ 4,948,392	\$ (5,808)
State sources	1,780,262	2,002,276	2,002,846	570
Federal sources	1,533,462	1,549,978	1,562,624	12,646
Incoming transfers and other transactions	-	36,308	29,162	(7,146)
Total revenues	7,903,753	8,542,762	8,543,024	262
EXPENDITURES				
Instruction				
Added needs	2,138,346	1,955,369	1,930,194	25,175
Support services				
Pupil	2,678,498	2,690,678	2,666,989	23,689
Instructional staff	622,632	608,277	599,833	8,444
General administration	71,102	64,153	59,625	4,528
Business	294,159	298,066	293,022	5,044
Operations and maintenance	380,446	361,924	341,236	20,688
Pupil transportation services	980,755	1,322,067	1,309,072	12,995
Central	192,985	222,811	226,899	(4,088)
Other	30,038	25,833	23,961	1,872
Community services	129,048	126,878	129,527	(2,649)
Outgoing transfers and other transactions	368,928	477,728	434,264	43,464
Total expenditures	7,886,937	8,153,784	8,014,622	139,162
Excess (deficiency) of revenues and (under) expenditures	\$ 16,816	\$ 388,978	528,402	\$ 139,424
Fund balances at July 1, 2006			3,710,743	
Fund balances at June 30, 2007			\$ 4,239,145	

Mason-Lake Intermediate School District
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Career and Technical Education Fund

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,750,347	\$ 1,756,347	\$ 1,818,569	\$ 62,222
State sources	168,931	140,481	140,481	-
Federal sources	129,356	122,725	122,725	-
Incoming transfers and other transactions	120,000	100,000	106,954	6,954
Total revenues	2,168,634	2,119,553	2,188,729	69,176
EXPENDITURES				
Instruction				
Added needs	1,337,373	1,312,598	1,217,013	95,585
Support services				
Pupil	281,785	249,335	221,439	27,896
Instructional staff	223,164	233,964	238,156	(4,192)
General Administration	81,149	81,149	82,960	(1,811)
Business	95,862	95,862	91,352	4,510
Operations and maintenance	124,000	124,000	118,354	5,646
Central services	9,000	9,000	7,218	1,782
Other	18,100	18,100	8,020	10,080
Outgoing transfers and other transactions	1,000	1,000	1,084	(84)
Total expenditures	2,171,433	2,125,008	1,985,596	139,412
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(2,799)</u>	\$ <u>(5,455)</u>	203,133	\$ <u>208,588</u>
Fund balances at July 1, 2006			<u>2,091,401</u>	
Fund balances at June 30, 2007			<u>\$ 2,294,534</u>	

OTHER SUPPLEMENTARY INFORMATION

Mason-Lake Intermediate School District
COMBINING BALANCE SHEET
 Other Governmental Funds
 June 30, 2007

			Debt Service		
	Total other governmental funds	Capital Projects	Building and Site Bonds 1994 Issue	Building and Site Bonds 2000 Issue	Permanent Fund
ASSETS					
Cash and cash equivalents	\$ 9,466	\$ -	\$ 468	\$ 954	\$ 8,044
Investments	480,721	480,721	-	-	-
Receivables	2,600	2,600			
	<u>492,787</u>	<u>483,321</u>	<u>468</u>	<u>954</u>	<u>8,044</u>
FUND BALANCES					
Reserved for:					
Capital projects	483,321	483,321	-	-	-
Permanent Fund	8,044	-	-	-	8,044
Debt service	1,422	-	468	954	-
	<u>\$ 492,787</u>	<u>\$ 483,321</u>	<u>\$ 468</u>	<u>\$ 954</u>	<u>\$ 8,044</u>

Mason-Lake Intermediate School District
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
Other Governmental Funds

			Debt Service		
	Total other governmental funds	Capital Projects	Building and Site Bonds 1994 Issue	Building and Site Bonds 2000 Issue	Permanent Fund
Revenues					
Local sources					
Investment earnings	\$ 24,553	\$ 24,493	\$ 18	\$ 42	\$ -
State sources	47,282	-	-	47,282	-
Total revenues	<u>71,835</u>	<u>24,493</u>	<u>18</u>	<u>47,324</u>	<u>-</u>
Expenditures					
Debt service	139,711	-	-	139,711	-
Total expenditures	<u>139,711</u>	<u>-</u>	<u>-</u>	<u>139,711</u>	<u>-</u>
Excess revenues over (under) expenditures	(67,876)	24,493	18	(92,387)	-
OTHER FINANCING SOURCES (USES)					
Transfers in	92,429	-	-	92,429	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>92,429</u>	<u>-</u>	<u>-</u>	<u>92,429</u>	<u>-</u>
Net change in fund balances	24,553	24,493	18	42	-
Fund balances at July 1, 2006	<u>468,234</u>	<u>458,828</u>	<u>450</u>	<u>912</u>	<u>8,044</u>
Fund balances at June 30, 2007	<u>\$ 492,787</u>	<u>\$ 483,321</u>	<u>\$ 468</u>	<u>\$ 954</u>	<u>\$ 8,044</u>

Mason-Lake Intermediate School District

**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2007

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BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 10, 2007

Board of Education
Mason-Lake Intermediate School District
Ludington, Michigan

We have audited the financial statements of Mason-Lake Intermediate School District as of and for the year ended June 30, 2007 and have issued our report thereon dated October 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason-Lake Intermediate School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mason-Lake Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mason-Lake Intermediate School District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education
October 10, 2007
Page 2

Compliance

As part of obtaining reasonable assurance about whether Mason-Lake Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

DEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 10, 2007

Board of Education
Mason-Lake Intermediate School District
Ludington, Michigan

Compliance

We have audited the compliance of Mason-Lake Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its cluster of major federal programs for the year ended June 30, 2007. Mason-Lake Intermediate School District's cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its cluster of major federal programs is the responsibility of Mason-Lake Intermediate School District's management. Our responsibility is to express an opinion on Mason-Lake Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mason-Lake Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mason-Lake Intermediate School District's compliance with those requirements.

In our opinion, Mason-Lake Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Mason-Lake Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mason-Lake Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mason-Lake Intermediate School District's internal control over compliance.

Board of Education
October 10, 2007
Page 2

Internal Control Over Compliance—Continued

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Mason-Lake Intermediate School District as of and for the year ended June 30, 2007 and have issued our report thereon dated October 10, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Mason-Lake Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007
					Prior year	Current year	Total	
U.S. Department of Education								
Programs received directly from Federal Government:								
Department of Education:								
REAP Grant	84.358A							
S358A063239		\$ 21,294	\$ -	\$ 21,294	\$ -	\$ 21,294	\$ 21,294	\$ -
Total direct from U.S. Dept of Education		21,294	-	21,294	-	21,294	21,294	-
Programs passed through Michigan								
Department of Education:								
I.D.E.A.	84.027A							
060450/0506		1,272,962	445,794	460,629	1,258,127	14,835	1,272,962	-
060480 EOSD		45,000	8,084	8,084	45,000	-	45,000	-
060490 TS		60,000	20,448	20,448	60,000	-	60,000	-
070490 TS		60,000	-	51,019	-	60,000	60,000	8,981
070450/0607		1,282,101	-	1,029,891	-	1,242,651	1,242,651	212,760
060480 EOSD		45,000	-	43,410	-	45,000	45,000	1,590
070440		4,000	-	1,804	-	1,887	1,887	83
		2,769,063	474,326	1,615,285	1,363,127	1,364,373	2,727,500	223,414
I.D.E.A.	84.173A							
060460/0506		34,131	10,570	10,570	34,131	-	34,131	-
060460/0607		33,370	-	29,624	-	33,370	33,370	3,746
		67,501	10,570	40,194	34,131	33,370	67,501	3,746
Total for I.D.E.A. cluster		2,836,564	484,896	1,655,479	1,397,258	1,397,743	2,795,001	227,160
Infant and Toddler Early Childhood								
Intervention Program								
061340/190	84.181A	79,673	23,060	29,615	73,118	6,555	79,673	-
071340/190		80,151	-	63,001	-	80,151	80,151	17,150
		159,824	23,060	92,616	73,118	86,706	159,824	17,150

Mason-Lake Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Prior year	Expenditures (accrual basis) Current year Total		Accrued (deferred) revenue June 30, 2007
U.S. Department of Education—Continued								
Programs passed through Michigan Department of Education—Continued								
Title V	84.298							
060250/0506		\$ 1,159	\$ 997	\$ 1,159	\$ 997	\$ 162	\$ 1,159	\$ -
		1,159	997	1,159	997	162	1,159	-
Title II	84.367							
060520/0506		233	-	233	-	233	233	-
070520/0607		233	-	-	-	39	39	39
		466	-	233	-	272	272	39
Total passed through the Michigan Department of Education		2,998,013	508,953	1,749,487	1,471,373	1,484,883	2,956,256	244,349
Programs passed through Wexford-Missaukee Intermediate School District								
Reading First								
071B3001240	84.357	15,276	-	15,276	-	15,276	15,276	-
Total passed through Wexford-Missaukee Intermediate School District		15,276	-	15,276	-	15,276	15,276	-
Programs passed through Muskegon Area ISD								
CTE Perkins	84.048							
073520/7012-9		9,000	-	9,188	-	9,188	9,188	-
Total passed through Muskegon Area ISD		9,000	-	9,188	-	9,188	9,188	-
Programs passed through Mecosta-Osceola ISD								
CTE Perkins								
073520/7012-7	84.048	112,750	-	112,562	-	112,562	112,562	-
Total passed through Mecosta-Osceola ISD		112,750	-	112,562	-	112,562	112,562	-
Programs passed through Ferris State University								
Tech Prep								
073540/7014-9	84.243	975	-	975	-	975	975	-
Total passed through Ferris State University		975	-	975	-	975	975	-
Total U.S. Department of Education		3,157,308	508,953	1,908,782	1,471,373	1,644,178	3,115,551	244,349

Mason-Lake Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007
					Prior year	Current year	Total	
<i>U.S. Department of Agriculture</i>								
Programs passed through Michigan								
Department of Education:								
National School Lunch	10.555							
061950 Section 4		\$ 696	\$ 26	\$ 131	\$ 591	\$ 105	\$ 696	\$ -
061960 Section 11		4,442	163	821	3,784	658	4,442	-
071950 Section 4		573	-	478	-	573	573	95
071960 Section 11		3,865	-	3,218	-	3,865	3,865	647
		9,576	189	4,648	4,375	5,201	9,576	742
Entitlement Commodities	10.550	2,497	-	2,497	-	2,497	2,497	-
Bonus Commodities		63	-	63	-	63	63	-
		2,560	-	2,560	-	2,560	2,560	-
Total U.S. Department of Agriculture		12,136	189	7,208	4,375	7,761	12,136	742
<i>U.S. Department of Health and Human Services</i>								
Program passed through the West Michigan Community								
Mental Health:								
Medical Assistance Program Title XIX	93.778							
Medicaid Outreach Program - 2006		70,413	-	70,413	-	70,413	70,413	-
Medicaid School Based Services Program		12,838	6,278	6,278	12,838	-	12,838	-
Total passed through the Michigan Family Independence Agency and total U.S. Department of Health and Human Resources		83,251	6,278	76,691	12,838	70,413	83,251	-
TOTAL FEDERAL ASSISTANCE		\$ 3,252,695	\$ 515,420	\$ 1,992,681	\$ 1,488,586	\$ 1,722,352	\$ 3,210,938	\$ 245,091

Mason-Lake Intermediate School District
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

1. Please see the financial statements footnotes for the significant accounting policies used in the preparation of this schedule.
2. Management has utilized the Grant Section Auditors Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007 financial statements

General Fund	\$ 37,004	
Vocational Education Fund	122,725	
Special Education Fund	<u>1,562,624</u>	\$ 1,722,353

Rounding		<u>(1)</u>
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Expenditures per single audit report

Schedule of Expenditures of Federal Awards	<u><u>\$ 1,722,352</u></u>
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Mason-Lake Intermediate School District
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Mason-Lake Intermediate School District.
2. *No* significant deficiencies in internal control were disclosed by the audit of the financial statements.
3. *No* instances of noncompliance material to the financial statements of Mason-Lake Intermediate School District were disclosed during the audit.
4. *No* significant deficiencies in internal control were disclosed by the audit of the cluster of major federal award programs.
5. The auditors' report on compliance for the cluster of major federal award programs for Mason-Lake Intermediate School District expresses an unqualified opinion.
6. There were *no* audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a cluster of major programs was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education Special Education Cluster</i>	84.027 and 84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Mason-Lake Intermediate School District was determined to be a low-risk auditee.

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

NONE

SUPPLEMENTAL INFORMATION

BRICKLEY DELONG

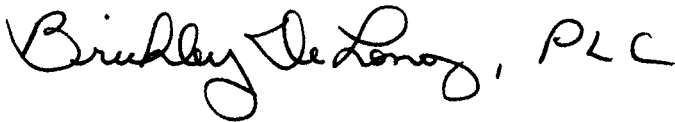
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

October 10, 2007

Board of Education
Mason-Lake Intermediate School District
Ludington, Michigan

We have audited the financial statements of Mason-Lake Intermediate School District as of and for the year ended June 30, 2007 and have issued our report thereon dated October 10, 2007. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 14 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of Mason-Lake Intermediate School District and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

Mason-Lake Intermediate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS
For the year ended June 30, 2007

Program Title / Grant Number Subrecipient Name	Federal CFDA number	Subrecipient award amount	Due to (from) subrecipient July 1, 2006	Cash or payments in kind made (cash basis)	Expenditures (accrual basis)			Due to (from) subrecipient June 30, 2007
					Subrecipient prior year	Current year	Total	
Medical Assistance Program Title XIX Medicaid Outreach Program	93.778							
Passed through to:								
Baldwin Community School District		\$ 1,991	\$ -	\$ 1,991	\$ -	\$ 1,991	\$ 1,991	\$ -
Free Soil Community School District		449	-	449	-	449	449	-
Ludington Area School District		9,553	-	9,553	-	9,553	9,553	-
Mason County Central School District		4,695	-	4,695	-	4,695	4,695	-
Mason County Eastern School District		1,933	-	1,933	-	1,933	1,933	-
Pentwater Public School District		1,232	-	1,232	-	1,232	1,232	-
		<u>\$ 19,853</u>	<u>\$ -</u>	<u>\$ 19,853</u>	<u>\$ -</u>	19,853	<u>\$ 19,853</u>	<u>\$ -</u>
Mson-Lake Intermediate School District						50,560		
Total Federal Funds Passed Through to Subrecipients						<u>\$ 70,413</u>		

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 10, 2007

Michigan Department of Education
Lansing, MI

Mason-Lake Intermediate School District respectfully advises you that there were *no* audit findings reported in our single audit report, dated September 8, 2006, for the year ended June 30, 2006.

Sincerely,

A handwritten signature in black ink that reads "Jeanne Oakes". The signature is written in a cursive, flowing style.

Jeanne Oakes
Superintendent

CORRECTIVE ACTION PLAN

October 10, 2007

Michigan Department of Education
Lansing, MI

Mason-Lake Intermediate School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 provided *no* findings in either Section B or Section C. Accordingly, there are *no* matters requiring corrective action as shown below.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

There were *no* compliance findings and *no* significant deficiencies in relation to the financial statement audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

There were *no* compliance findings and *no* significant deficiencies in relation to the major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Jeanne Oakes at (231) 757-3716.

Sincerely,



Jeanne Oakes
Superintendent